

Response to Scrutiny Committee recommendations on capital financing and investment report

The recommendation from Scrutiny to Cabinet, with responses, is as follows:

Recommendation	Response
<p>“That the Scrutiny Committee recommends to Cabinet that the report to Cabinet was inadequate to make a proper decision for the following reasons:</p>	
<p>(a) There is no business plan, nor profit loss account, nor a cash flow for the early years of the project;</p>	<p>Turnberry Estates provided a 50-year cash flow based upon the cash flows forecast from U+I in the development phase, and assumptions they made about borrowing and minimum revenue provision - this is set out in the Cabinet report. Once build costs are finalised these will all be updated for a final projected cash flow.</p> <p>This will then form part of the Chief Financial Officer’s recommendation to the Leader and Cabinet Member for Finance & Performance on whether to proceed. To be clear, no decision will be taken until full due diligence is undertaken.</p> <p>In terms of due diligence a proposal of this nature is more robustly underpinned by a detailed financial appraisal rather than a business plan. The key to this appraisal is the guaranteed rental incomes and assumptions in relation to future returns from a commercial investment of the type considered. The Cabinet report summarised the 50-year cash flows, showing income of £145m against debt costs of £34.3m, based upon the annual cash flows.</p>
<p>(b) There is no determination of the anticipated actual loan required;</p>	<p>We will finalise what borrowing we need to do and at what point in finalising the financial appraisal. We want to secure certainty on funding, but at the same time and as far as possible defer borrowing costs until we can cover them with income earned from tenants.</p> <p>We can fund much of the development phase without borrowing. Arlingclose, the Council’s treasury advisers, will advise on the borrowing strategy.</p>
<p>(c) There is no risk assessment in the Cabinet papers and the risk assessment on the Scrutiny report is inadequate;</p>	<p>There are risks associated with this project, and members have to judge whether the return and the transformation of Sittingbourne Town Centre is sufficient to justify the risks taken.</p> <p>A fuller risk assessment will be set out as part of the further due diligence exercise, judged against our investment criteria of maximising financial return and strategic impact, to inform any exercising of the delegations set out within the Cabinet report.</p>

<p>(d) There is no explanation of alternatives that could be considered In the Cabinet report;</p>	<p>It was explained at Scrutiny Committee what other projects had been looked at. No other projects of a similar size and scale, that also help to meet the Council's strategic objectives, are available.</p> <p>In financial terms, both from the rental income and the additional business rates, council tax and new homes bonus, the capital investment proposal offers very high returns, as well as the transformation of the Town Centre.</p>
<p>(e) There is no detailed information on profit expected to be made by the Developers;</p>	<p>The profit expectation for the developer is commercially confidential.</p> <p>However, our due diligence has confirmed that the extent of any developer's profit would be at the lower end of the scale of commercial expectations for a scheme of this type. In terms of the proposed capital investment this is not in any case directly relevant to the decision.</p>
<p>(f) There is no valuation of the purchase being made; and</p>	<p>The value of the final project will be based upon the valuation that will be made by a potential purchaser of the cash flows/ rental income paid by the tenants. This gives the overall yield on the project, which is quoted in the financial appraisal at 7.8%, reducing to 6.8% when allowance is made for voids in the longer term, management costs and a sinking fund annual contribution.</p> <p>These are very attractive yields in themselves, even without taking into account the significant additional business rates, council tax and new homes bonus forecast at £1.175m per annum.</p>
<p>(g) There are no details of the contracting out of the project management</p>	<p>The property management issues have not been addressed yet because we are at financial appraisal stage, which does, of course, take account of the need for the completed development to be commercially managed, and the estimate contained in the financial modelling is based on expert advice regarding the typical costs of managing such an asset.</p> <p>There are a range of options available and these will be worked up during the development phase; for example, Cushman Wakefield, one of the country's leading property managers, already manage the adjacent Forum Centre, and may be interested in taking on the day-to-day management of the new assets, but other specialist firms are available and due consideration will be given to a competitive process of appointment.</p>
<p>...and should be referred back to Cabinet with all of the points included above so that an adequate decision can be made.</p>	

In summary, Cabinet support the thrust of the further detailed work set out in the recommendation received from Scrutiny, and these will be fully incorporated as set out above in the further due diligence that will be required before any decision to enact the delegations set out in the Cabinet report.

However, Cabinet are also clear that the project should not be subject to any further unnecessary delays, and on this basis does not agree with the requirement for a further formal report to Cabinet.

All aspects of the decision-making process and the evidence supporting it will continue to be available to Scrutiny members through the usual reporting mechanisms.